

# Lecture 1:

## An Introduction to (Intermediate) Macroeconomics ECON 202

## What is macroeconomics?

Macroeconomics is the study of the *collected behavior* of economic agents. It focuses on the *aggregate* behavior of consumers and firms, the behavior of governments, the overall level of economic activity, the economic interactions among nations, and the effects of fiscal and monetary policy.

Macroeconomics versus microeconomics=  
Aggregate versus individual decision-making

# What are the main research questions in Macroeconomics?

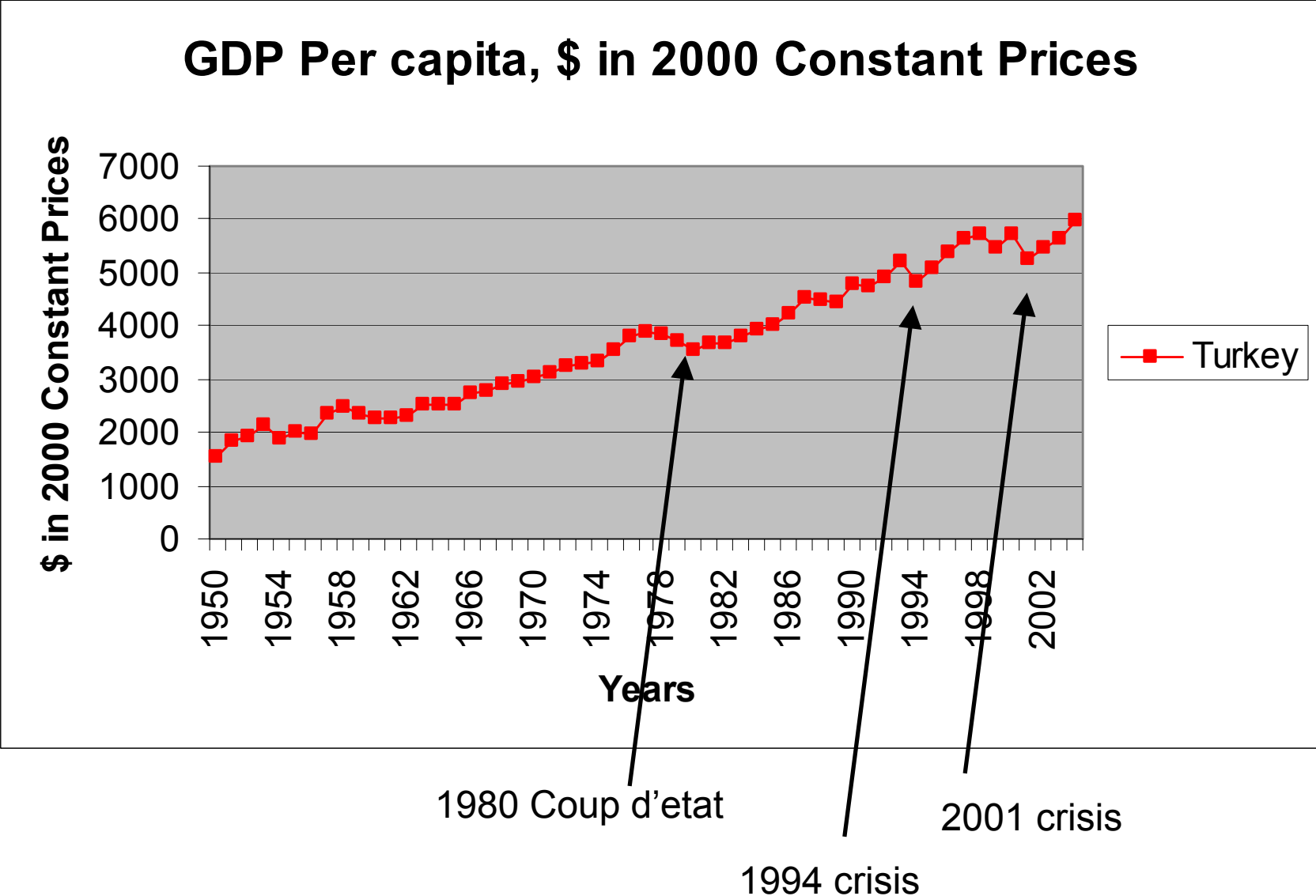
- Business cycles (short-run changes in aggregate economic activity)
- Economic growth (long-run changes in aggregate economic activity)
- Inflation
- Unemployment
- International Macroeconomics

## Gross National Product (GNP)

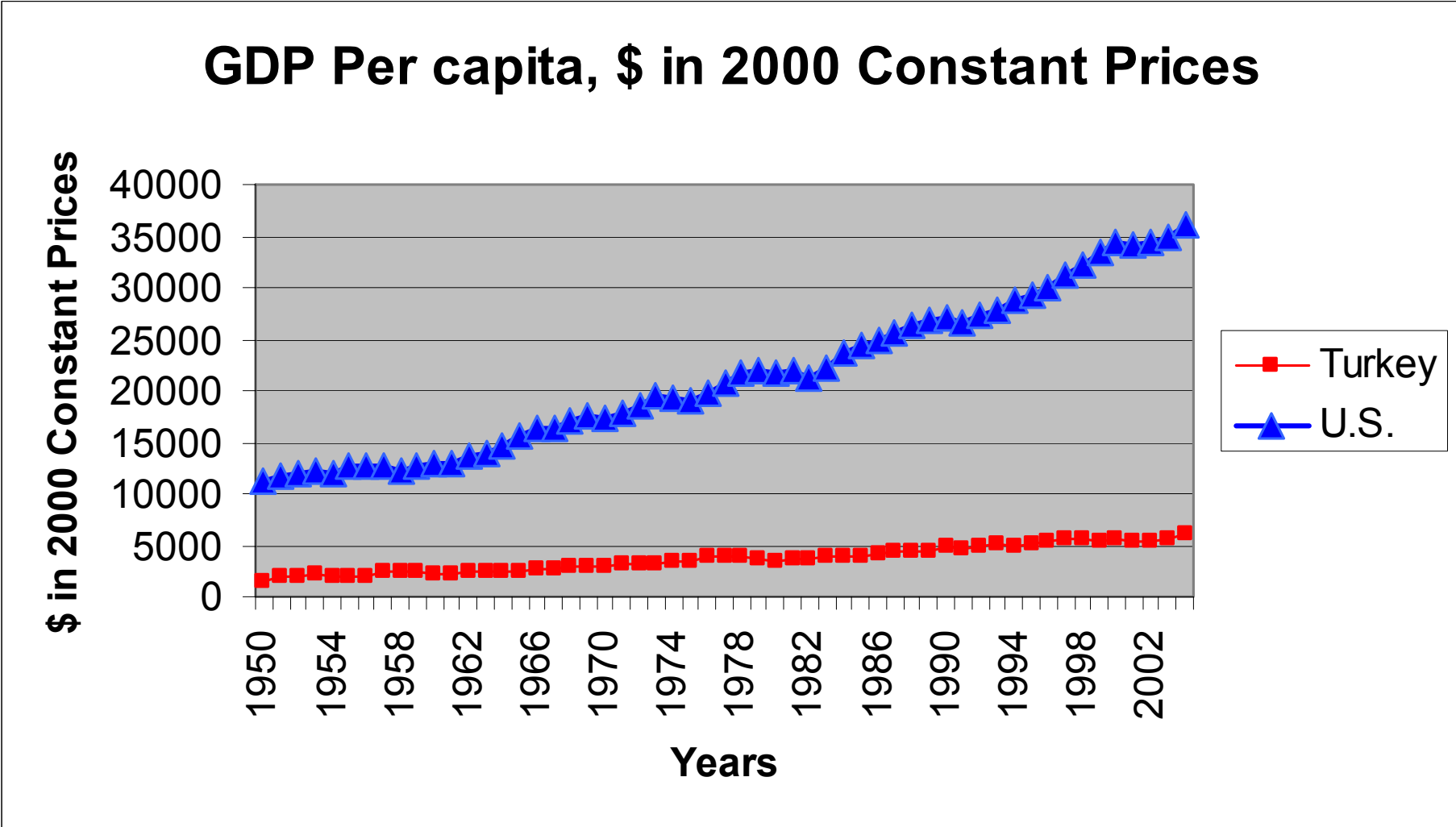
Gross National Product is a measure of economic activity.

It is the (real) value of goods and services produced by a country's residents during some specified period of time (=output produced by domestic factors of production).

# Gross Domestic Product per capita (GDP/C)

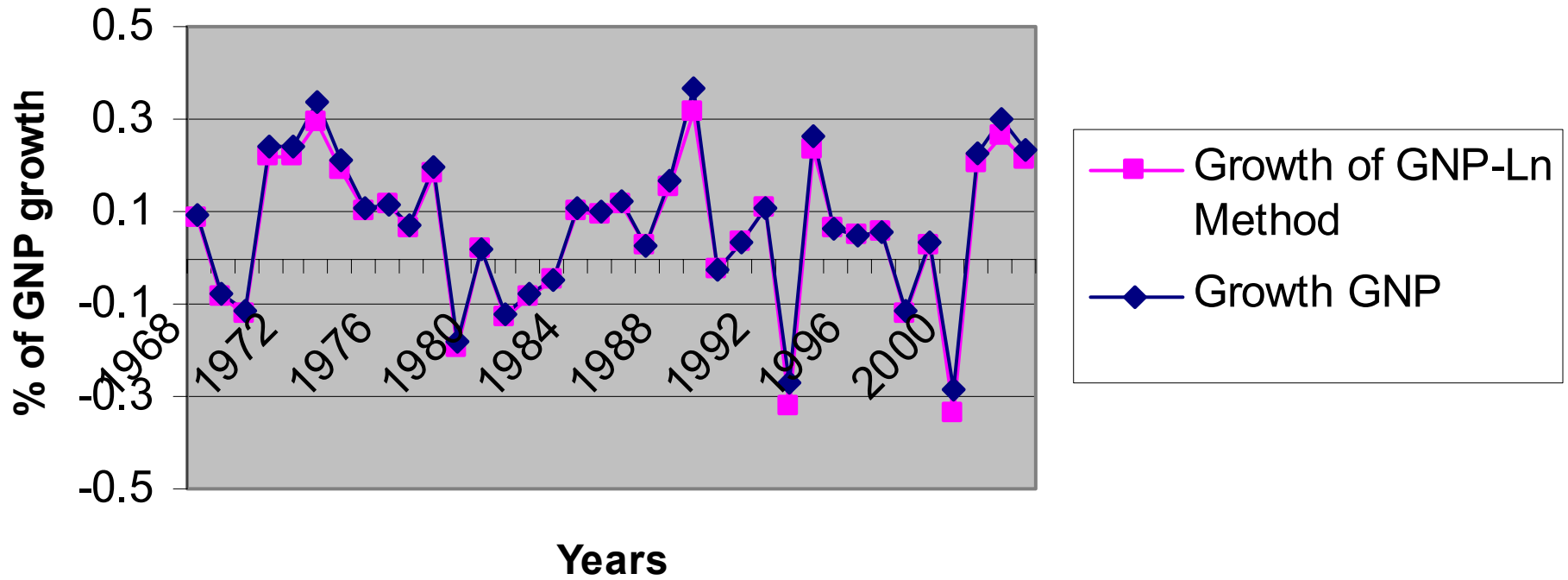


# Gross Domestic Product per capita (GDP/C)

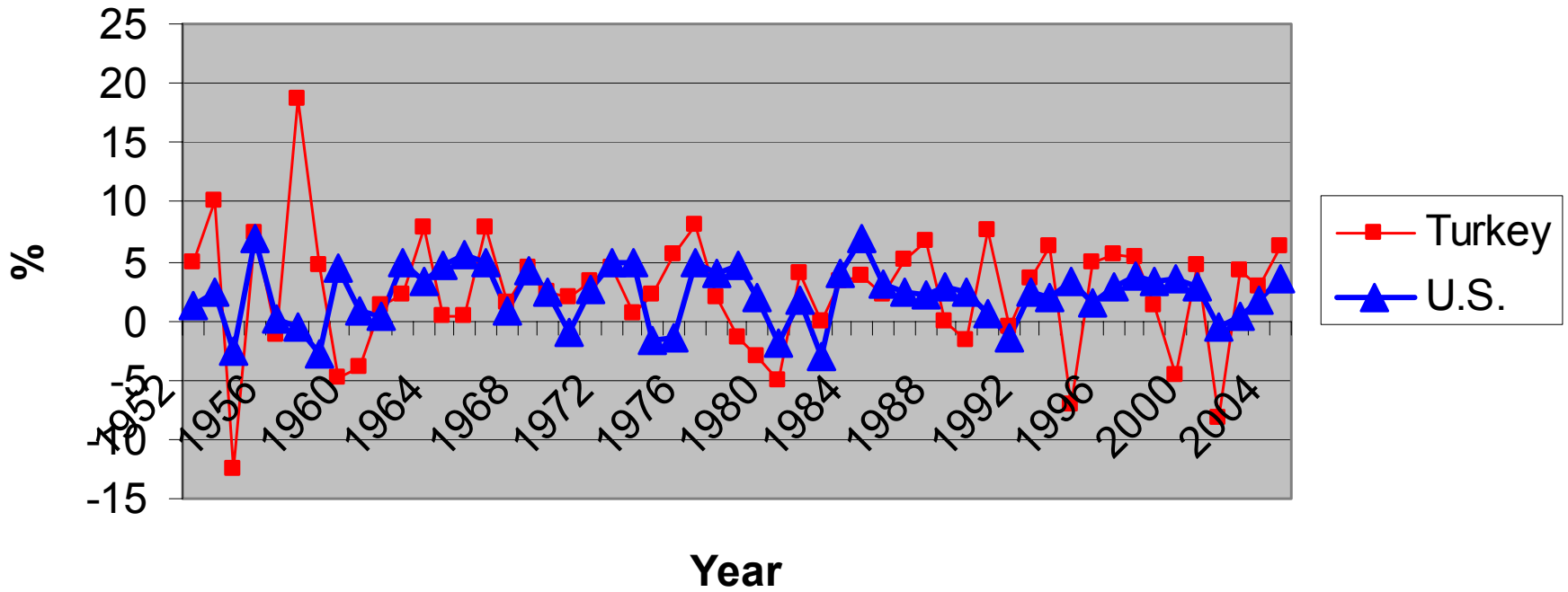


# Growth Performance of Turkey

# % Growth Rate



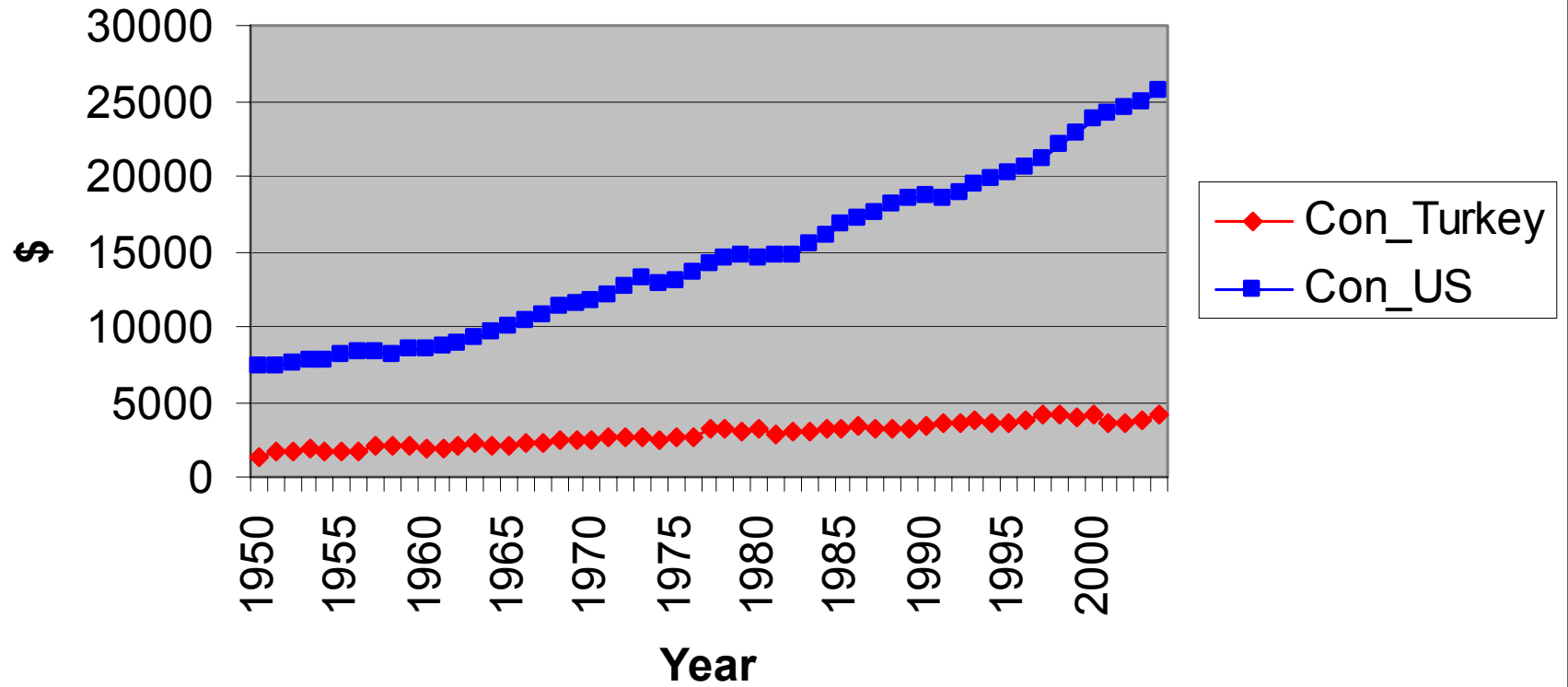
## Growth Rates, US versus Turkey



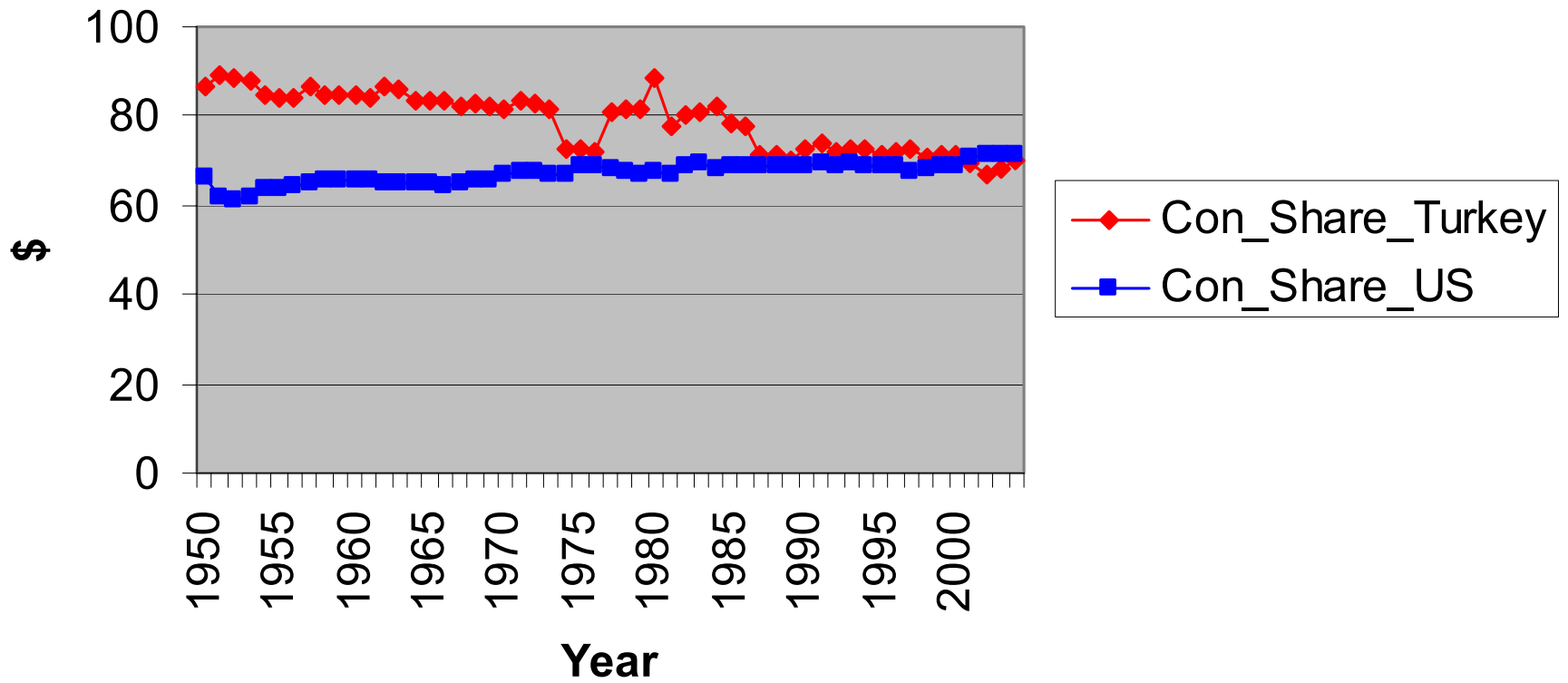
Kaynak: Penn Dünya Tablosu ([http://pwt.econ.upenn.edu/php\\_site/pwt62/pwt62\\_form.php](http://pwt.econ.upenn.edu/php_site/pwt62/pwt62_form.php))

# Consumption

## Real Consumption, 2000 Constant Prices

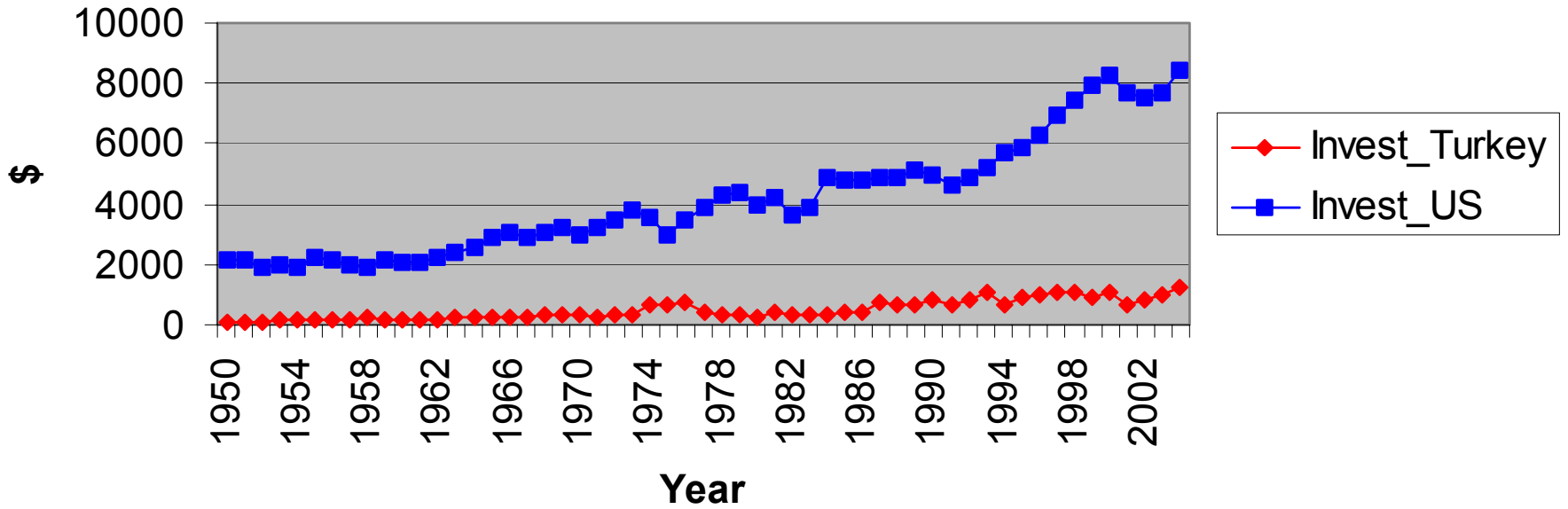


## Consumption Share, 2000 Constant Prices

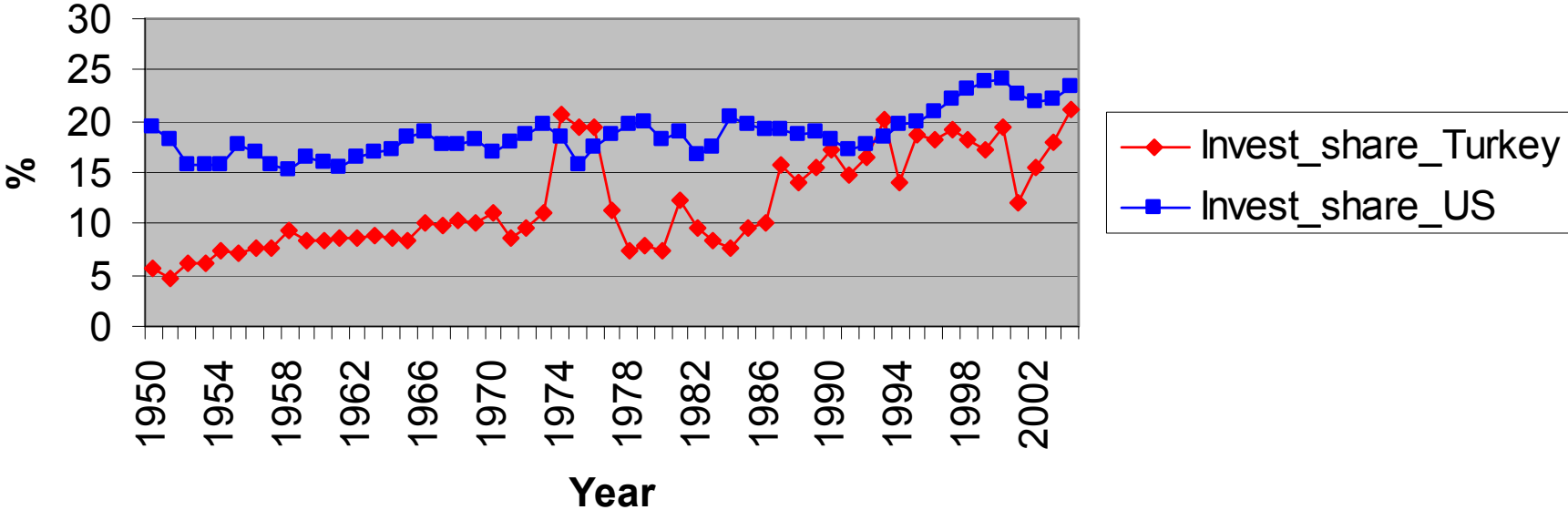


# Investment

## Investments per capita, \$ in 2000

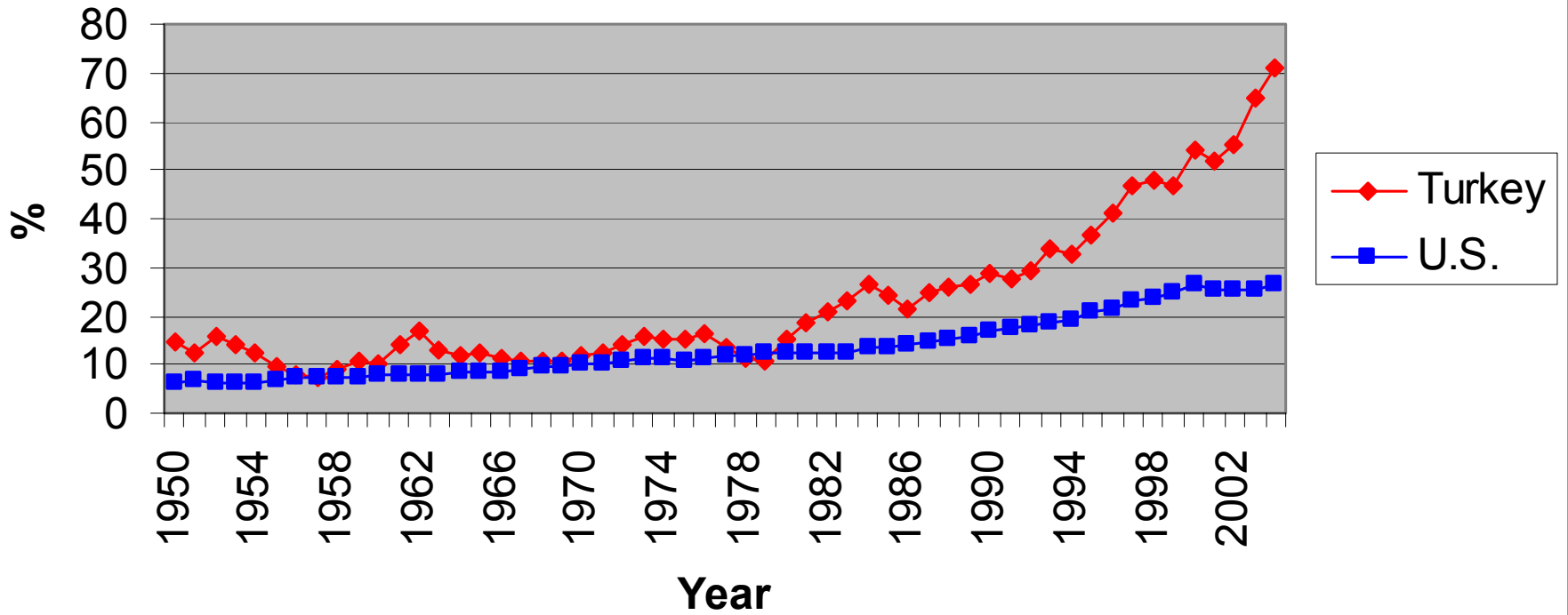


# Investment/RGDPC



# Openness

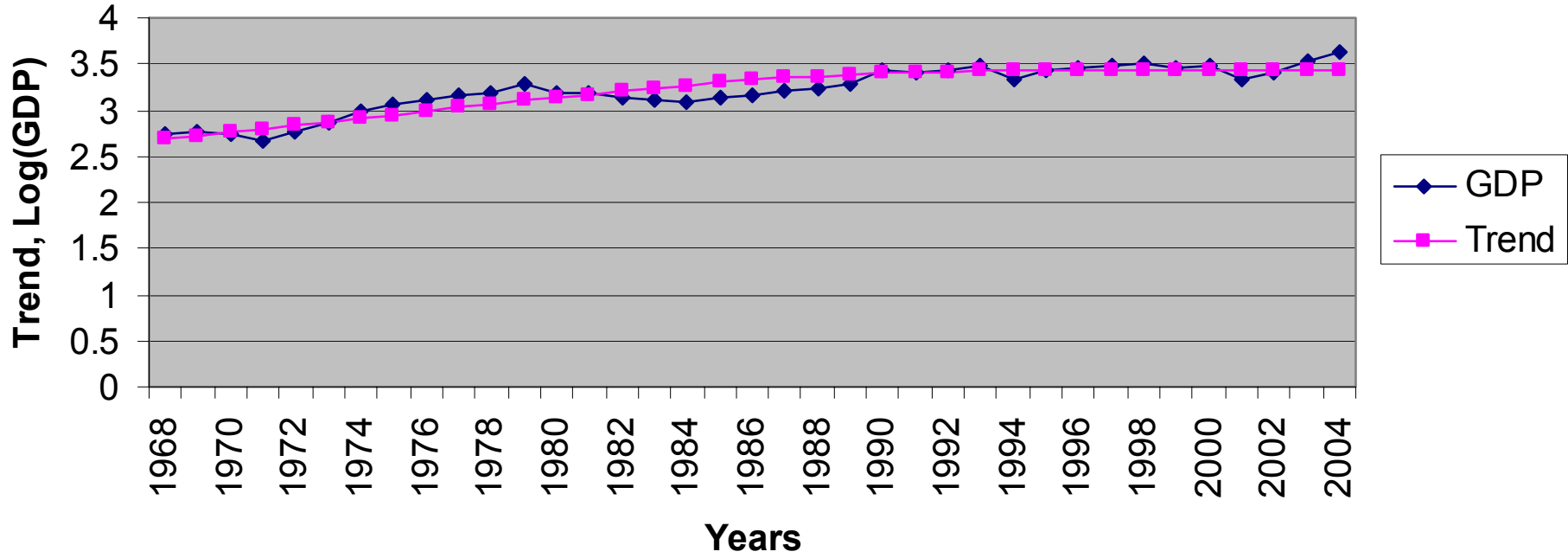
# % Openness



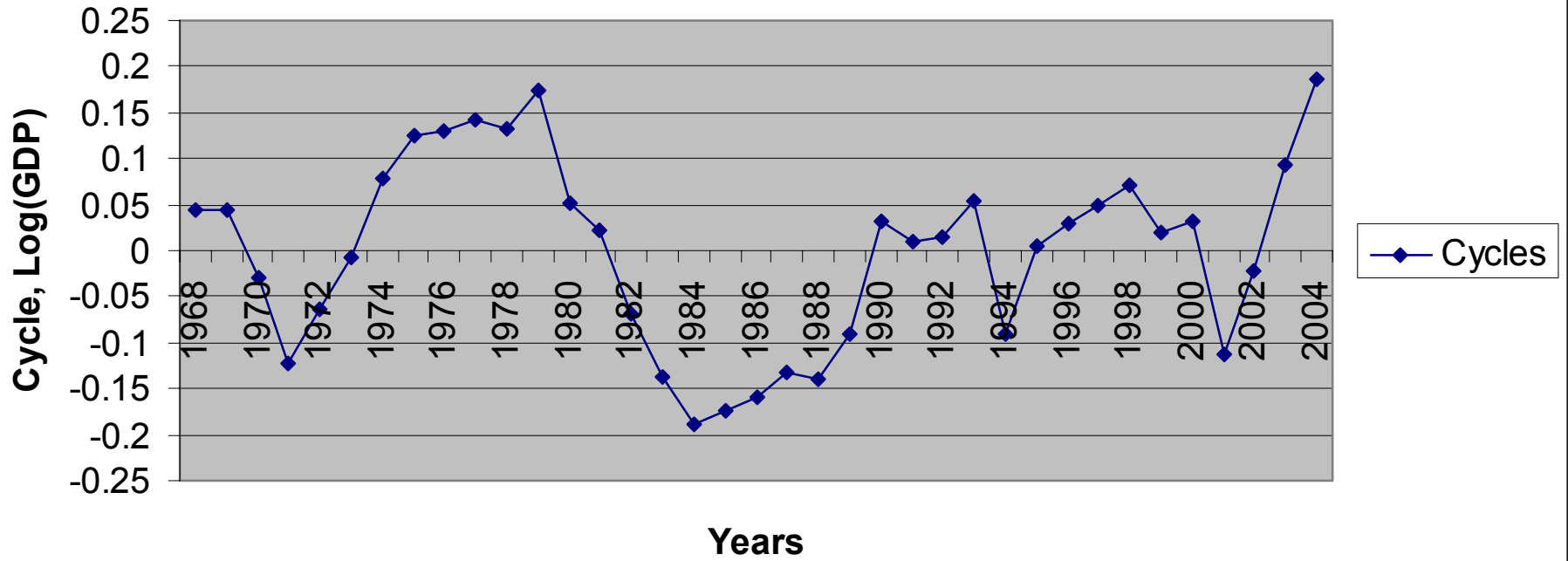
# Business Cycles of Turkey

# Decomposing time series data into trend and cycle components

# Turkish GDP and Trend

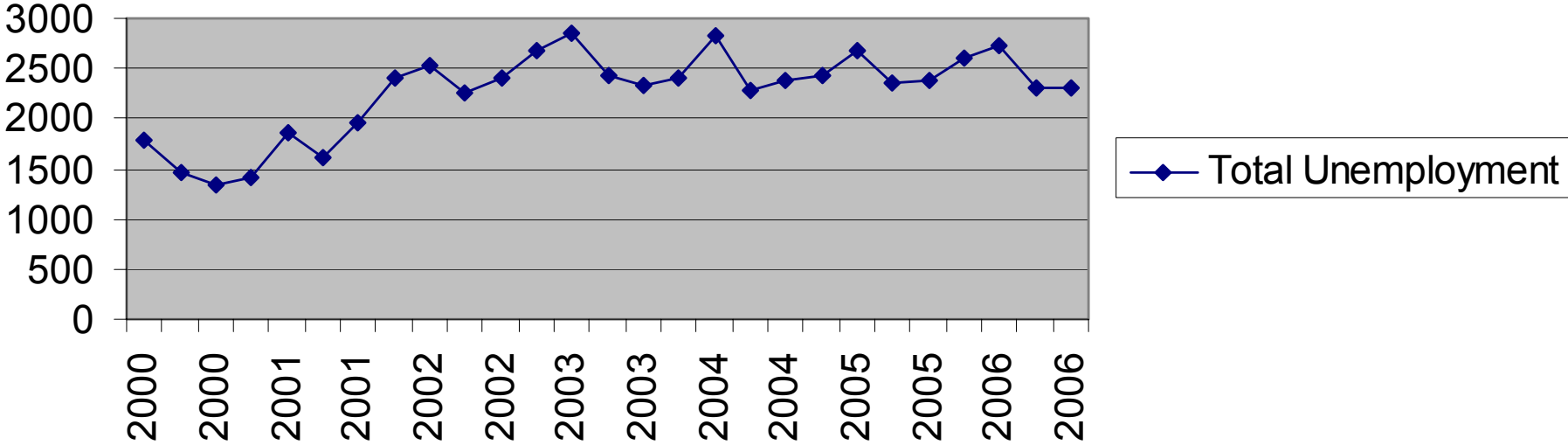


## Turkish Business Cycles



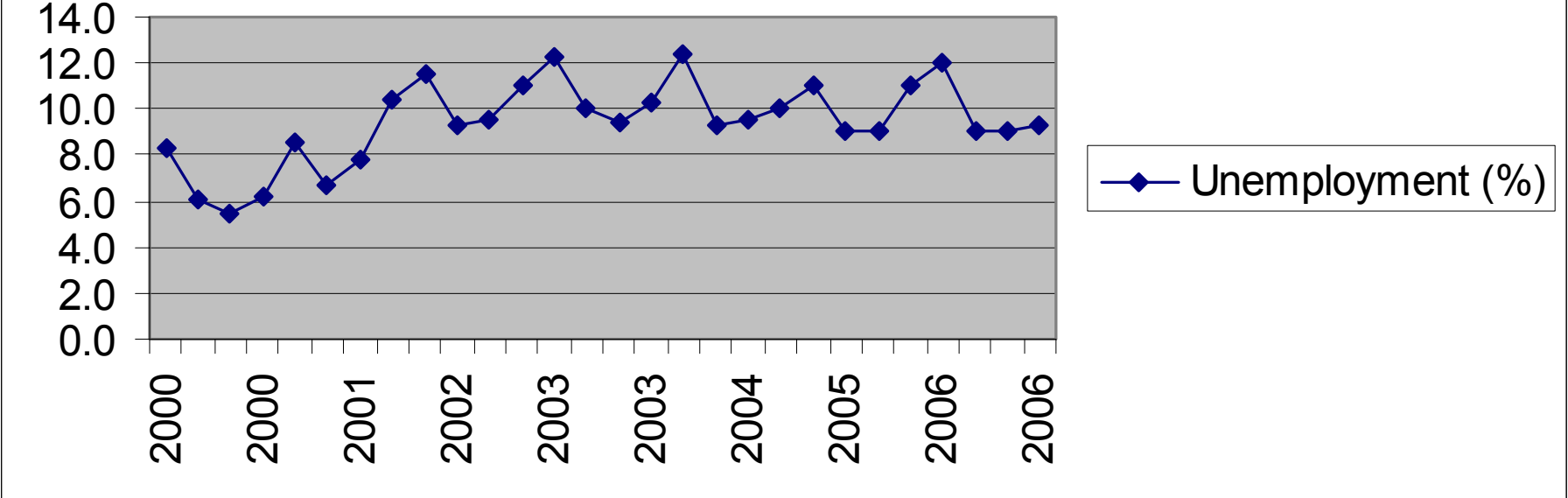
# Unemployment in Turkey

Total Unemployment (000)



Source: TUIK

### Unemployment (%)



Source: TUIK

Young Unemployed: Average → 17.6 %

Urban → 23%

Uneducated: 3.6%

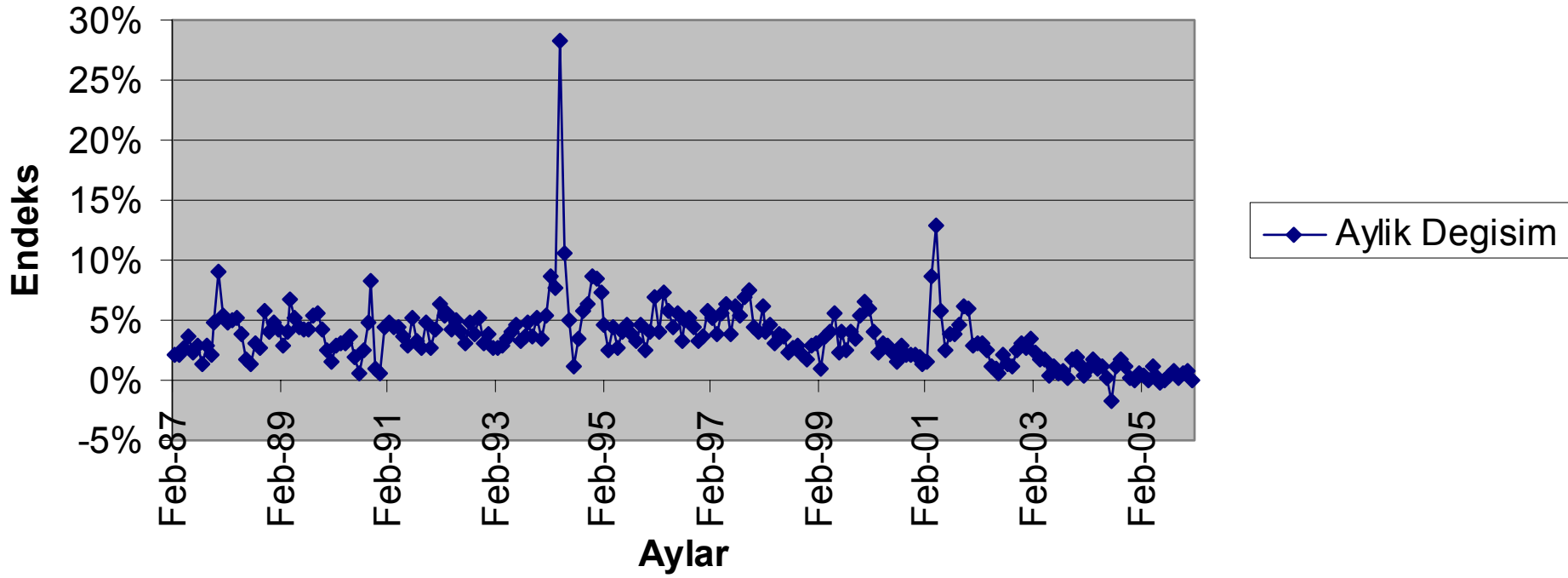
Secondary School 8.1%

Tertiary School 12.6%

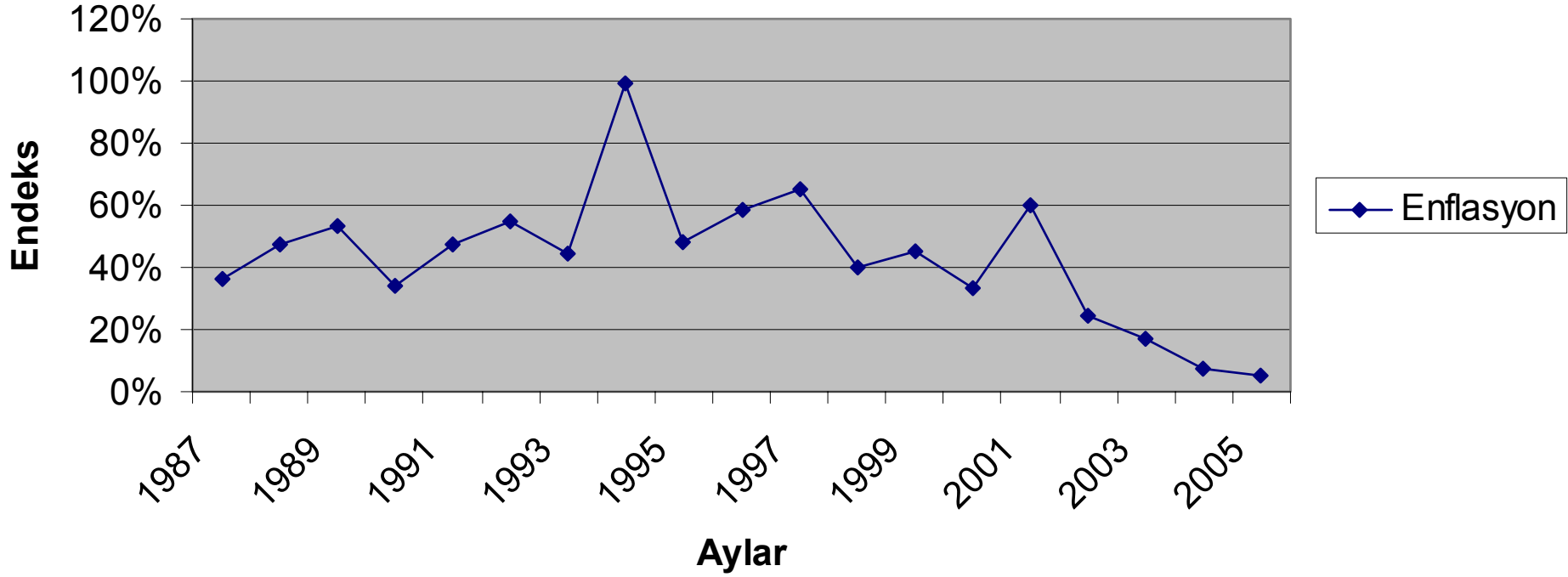
Higher-education 10.8%

# Inflation in Turkey

Fiyat Endeksi (Toptan Eşya) (1968=100) (İTO) (Aylık)

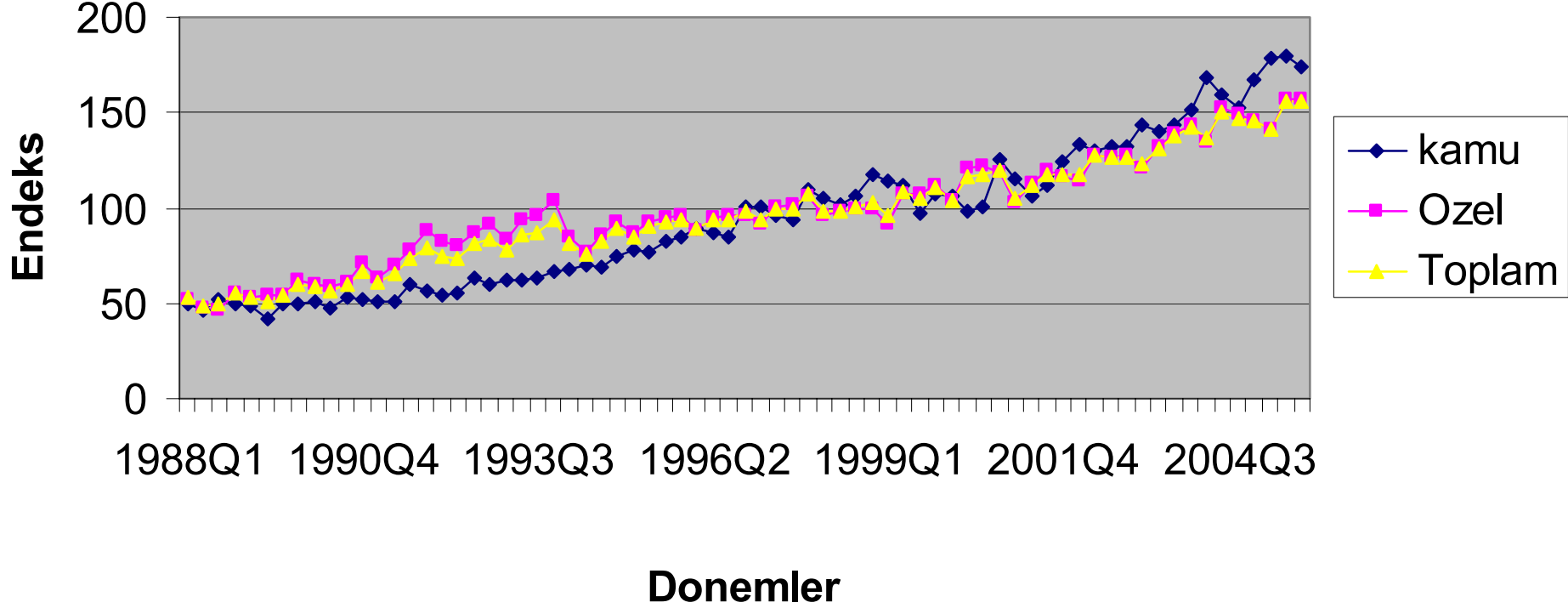


Fiyat Endeksi(Toptan Eşya) (1968=100) (İTO) (Yıllık)

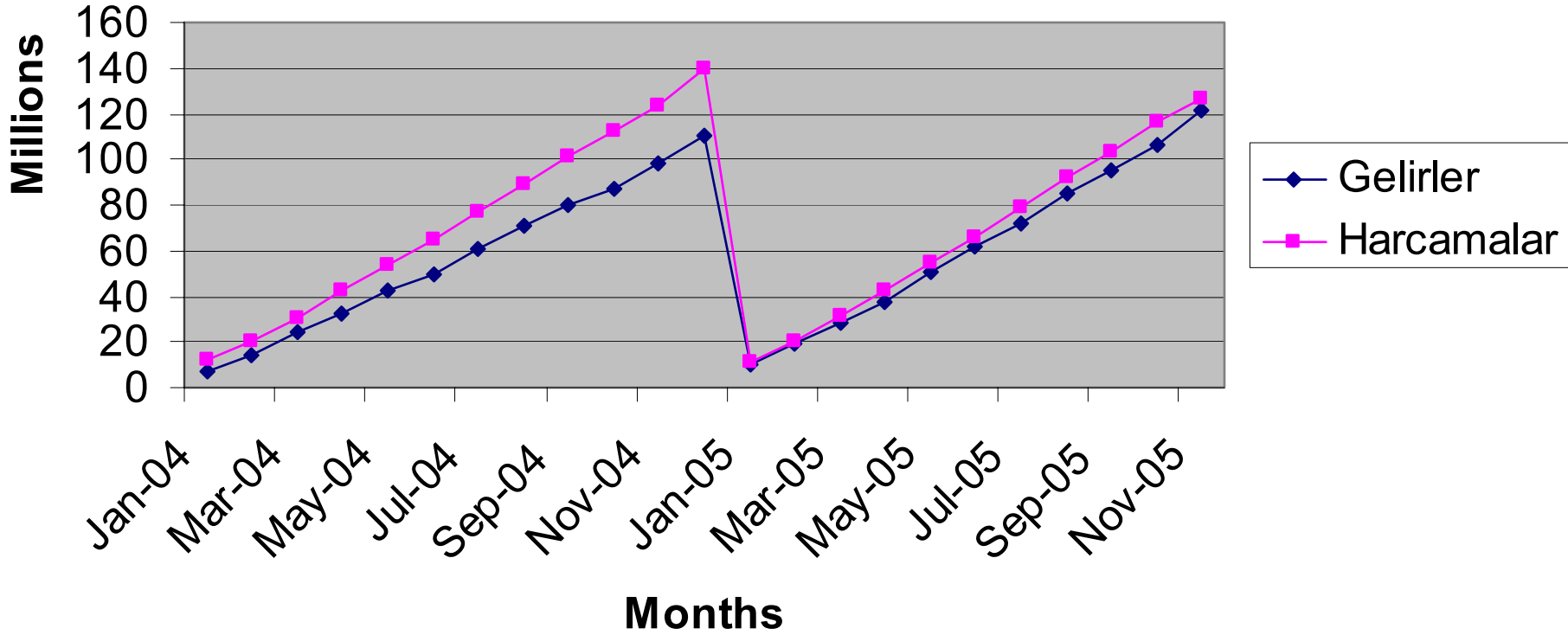


# Some Other Macroeconomic Facts of Turkey

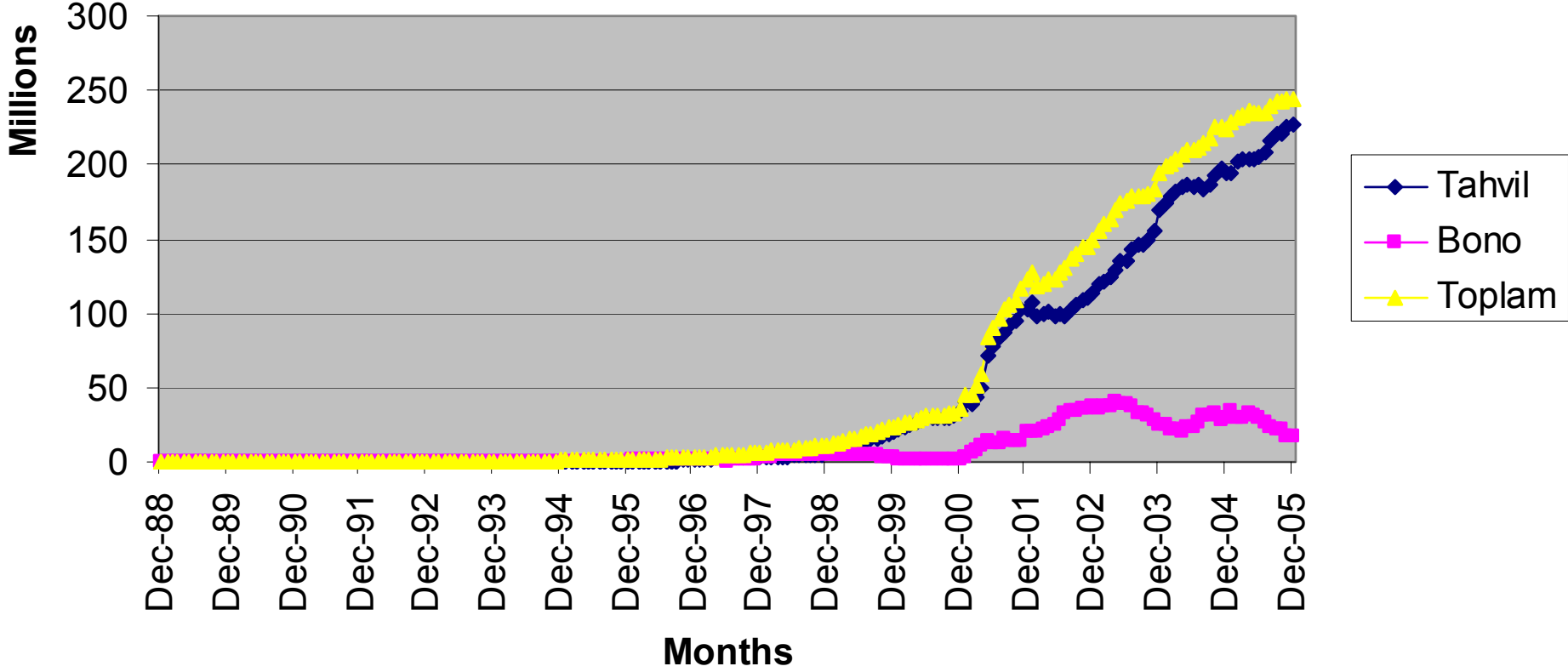
# İmalat Sanayi-Üretimde Çalışan Kişi Başına Emek Verimliliği Endeksi (1997=100)



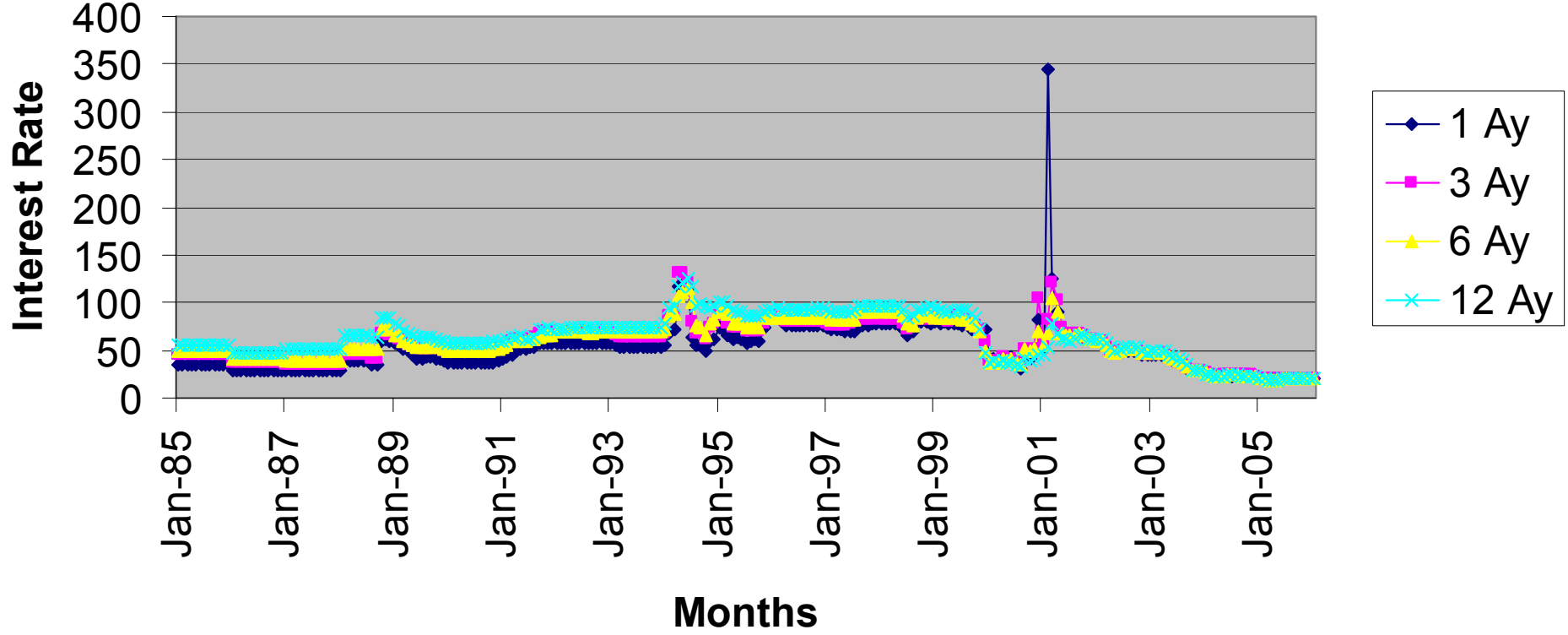
## Konsolide Bütçe Gerçekleşmeleri (Kümülatif)- Yeni Tanım (Hazine) (Aylık, Bin YTL)



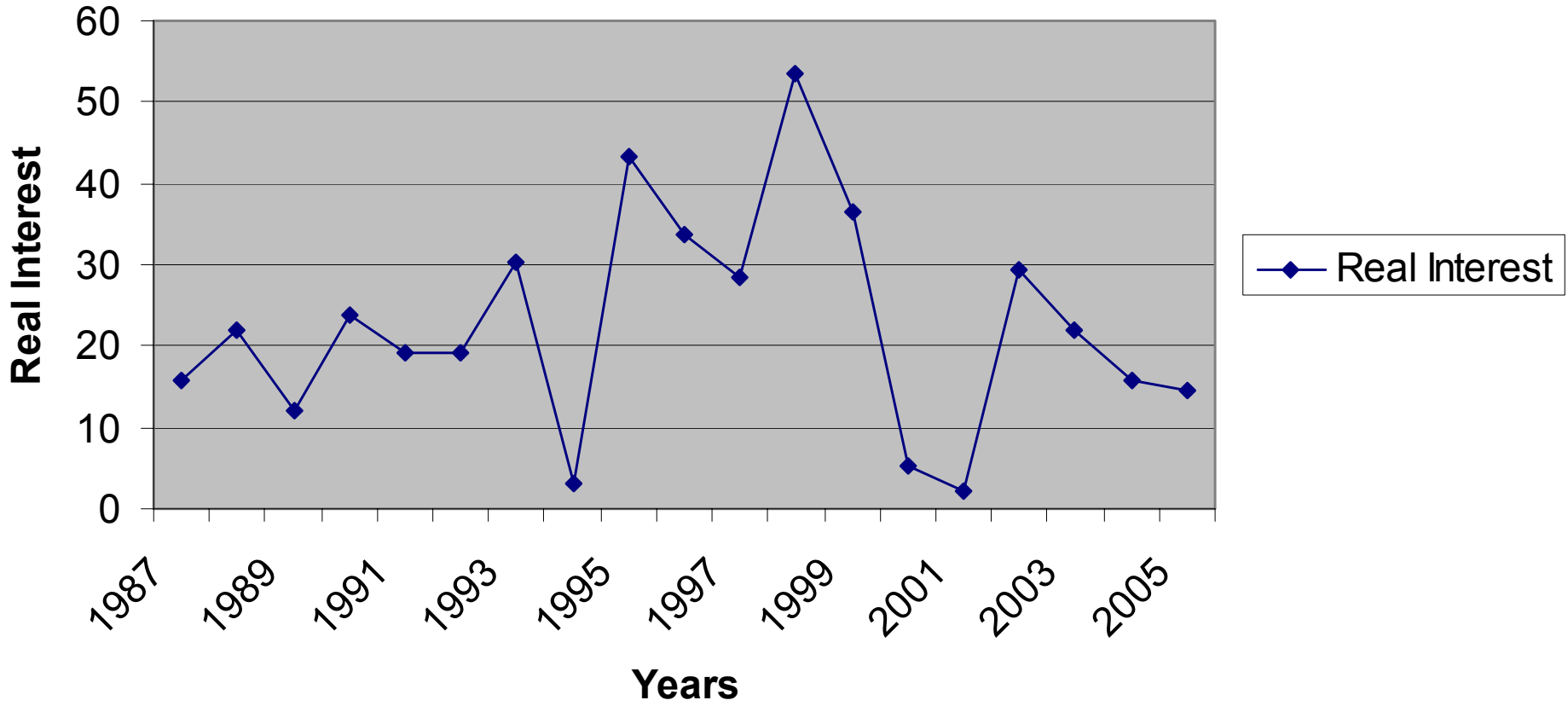
## İç Borç Stok Verileri (Hazine) (Aylık, Bin YTL)



## Mevduat Faiz Oranları (Aylık)



# Real Interest



# Macroeconomics versus Microeconomics

Modern approach:

Macroeconomics is based on microeconomic foundations (back to the classical school)

Macroeconomic models— tools of experiment

They allow economists to capture the essential features of the world for analyzing a particular economic problem.

# Elements of Macroeconomic Models

Consumers (preferences)

Firms (production)

Optimization → do the best that you can do  
given your constraints

Equilibrium → Your best and others best  
match.

Market solution → No ruler  
(Competitive Equilibrium)

# Disagreement in Macroeconomics

Keynesians vs.

Government Intervention

Keynesian Coordination Failure

Neo-classicals

Money Surprise Theory

Real Business Cycle

## Some Important Findings of Macroeconomics

- Improvements in standards of living is a long run issue and its main source is technological change
- A tax cut is not a free lunch
- Expectations are important
- Changes in the quantity of money does not affect real variables in the long run
- There are many sources of Business Cycles

2040

The Global Distribution of Gross Domestic Product (GDP) in 2000, by Grouping of Nations

Grouping	Population (in millions)	Percent of total	GDP in billions of \$ (PPP)	Percent of total
United States	282	5	9,601	22
European Union (EU 15)	378	6	9,264	21
India	1,003	16	2,375	5
China	1,369	22	4,951	11
Japan	127	2	3,456	8
6 South East Asian Countries (SE6)	381	6	2,552	6
Subtotals	3,540	58	32,199	73
Rest of the World	2,546	42	12,307	28
World	6,086	99*	44,506	101*

The Global Distribution of Gross Domestic Product (GDP) in 2040, by Grouping of Nations

Grouping	Population (in millions)	Percent of total	GDP in billions of \$ (PPP)	Percent of total
United States	392	5	41,944	14
European Union (EU 15)	376	4	15,040	5
India	1,522	17	36,528	12
China	1,455	17	123,675	40
Japan	108	1	5,292	2
6 South East Asian Countries (SE6)	516	6	35,604	12
Subtotals	4,369	50	258,083	85
Rest of the World	4,332	50	49,774	16
World	8,701	100	307,857	101*

**Invest in China and India!**